

HARVARD UNIVERSITY



Sponsored Cost Allocation Methodology Guidance

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Responsible Office: Office for Sponsored Programs

Guidance Statement

Harvard University has established the following guidance for the allocation of costs that benefit two or more projects or activities in proportions that are **not** easily determined. Allocations are often necessary when Principal Investigators and administrators are assigning recurring or other costs to sponsored projects or activities in alignment with relative benefit.

Reason for Guidance

Harvard University must comply with the federal regulations in the Cost Accounting Standards (CAS) and the Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR 200, (Uniform Guidance). For costs benefitting a single project, the expense(s) should be allocated and directly charged to that project.

Uniform Guidance Subpart E §200.405 (d), Allocable Costs, stipulates that it is necessary to substantiate the proportional benefit of costs when costs benefit two or more projects.

“If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.”

These costs should be simply apportioned to reflect the easily determined proportional benefit.

“If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then ... the costs may be allocated or transferred to benefited projects on any reasonable documented basis.” When costs that benefit two or more projects or activities in proportions that are **not** easily determined, an allocation is necessary.

Allocation is one of several ways to charge expenses onto a project or activity:

Direct charging a direct cost based on an easily determined, measurable benefit to the project or activity.

Distribution of a direct cost based on an easily determined, measurable relative benefit across several benefiting projects or activities.

Allocation of a direct cost based on relative benefit when the benefit is known, but not easily determined or not practically measurable across several funding sources. An allocation uses a reasoned basis to approximate the measurable benefit to distribute a direct cost.

Consider establishing a recharge center to charge benefiting funds based on actual costs and actual usage after the costs are incurred. This approach should be used when there are multiple costs and the users or usage is unknowable at the time costs are incurred.

This document provides guidance on the use of an “Allocation Methodology” that meets the reasonableness and documentation requirements in the Uniform Guidance. It guides users to apply a reasoned basis to a recurring cost, or a recurring group of costs, according to the anticipated proportional benefit that advances the work of each project or activity.

Allocation Methodology Components & Criteria

A valid allocation methodology establishes a reasoned basis for apportioning or transferring costs in proportional benefit to two or more projects or activities.

There are three basic components of an allocation:

- 1) The percent of the cost charged to each project or activity
- 2) The method or reasoning used to derive that percentage
- 3) Accompanying documents and, where applicable approvals

At Harvard, valid allocation methodologies meet all of the following criteria:

- Provide a reasonable linkage between the cost(s) incurred and the benefit to each individual project or activity

- Are identified prior to the allocation of expenses to sponsored projects or activities
- Are documented with sufficient detail that a person unfamiliar with grants management would understand
- Allow for the consistent treatment of costs that meet the criteria of the allocation methodology
- Are reviewed periodically and adjusted as needed

Allocation Methodology Practices

Best Practices

- Identify the basis of the allocation method in advance of purchasing, or at the time of ordering, the goods or services whenever possible to avoid the need for manual journals or cost transfers.
- Apply different allocation methodologies across a department or research group to best fit the expense type and allocation cost basis, rather than using the same methodology for all costs in the department.
- Document the allocation methodology prior to, or concurrently with, the costs being incurred and allocated. Include the rationale for using the selected basis to approximate the relative benefit received by each project or activity. (See additional documentation practices below.)
- Review allocations regularly to ensure they continue to reflect proportional benefit. Significant changes to factors used in the allocation cost basis will indicate the need to review the allocation components, or even the allocation methodology, outside of the regular review period. This review should include monitoring for changes in funding as sponsored projects or activities begin and end.
- Obtain approval according to the tub and department practices.

Timing and Compliance Considerations

- If costs are allocated and charged directly to sponsored projects or activities at the time of purchase, perform at least quarterly monitoring to ensure allocations continue to reflect relative benefit to all benefiting projects or activities

- If costs are accumulated in a suspense or holding account, ensure allocating journal entries are completed at least quarterly to comply with the Cost Transfer Policy and perform monitoring to ensure allocations continue to reflect relative benefit to all benefiting projects or activities.
 - Do not use sponsored funds to hold or suspend costs before they are allocated
 - Ensure that all held or suspended costs are fully allocated and that the amount allocated does not exceed the amount of costs held or suspended
- Provide sufficient justification for all journal entries or cost transfers.

Unacceptable Practices

The following allocation practices are generally unacceptable because they do not meet University standards for a high degree of accuracy or do not consider actual relative benefit.

- Rotating charges among sponsored projects or activities on a monthly basis without establishing that the rotation schedule reflects the relative benefit to each sponsored project or activity
- Using any allocation methodology that is based only on available sponsored funds, budgets, or to avoid restrictions imposed by law, terms of the sponsored award, or for other reasons of convenience.
- Describing an expense inaccurately to confound understanding of what the expense is and, therefore, how it benefits the project or activity.
- Charging expenses exclusively to sponsored projects when the expense also supports non-sponsored activities.
- Assigning charges to sponsored projects or activities in advance of the benefit to the project. (Refer to the Travel Policy for further information on acceptable cost practices for travel.)

Documentation Practices

- Once the allocation methodology has been determined and approved, **retain** the documentation in the department or local units in accordance with sponsor terms, federal regulations and University records retention policy.

- Document the **type of costs** to be included in the allocation methodology (e.g., consumable lab supplies, animal per diems, equipment service maintenance contracts, rent on non-federal awards)
- Document the **rationale or logic** that supports the linkage between costs incurred and proportional benefit to all benefiting projects.
- Document the determination or calculation of **percentages** used to allocate costs to all benefiting projects, including all supporting metrics, such as headcounts, FTEs, etc.
- Document the **process for updating the methodology**, including the frequency of review, revision, and approval to ensure that costs remain allocated based on relative benefit to all benefiting projects.
- If costs are accumulated in a suspense or holding account, document the account string and its timely and complete reconciliation.
- If the allocation requires a calculation for each distribution, attach documentation supporting the calculation to each allocation journal entry.
- If the allocation does not require a calculation for each distribution and uses a department-approved methodology, document the journal entry with support for the expenditure, as required by University policy.

Applicability

This guidance is applicable to all Principal Investigators (PIs) and administrators at the University within all schools, units, divisions, University-wide initiatives, and centers, who are involved with the initiation, administration, and conduct of sponsored projects.

Roles and Responsibilities

All Harvard PIs, faculty and staff are responsible for monitoring the expenditures throughout the lifecycle of their sponsored projects to ensure that costs are allocated in accordance with this guidance.

Principal Investigators (PIs) have primary responsibility for ensuring compliance with federal, sponsor and university regulations as well as the monitoring of expenditures, timely review and correction of

errors, and proper allocation of expenses. The PI should perform routine reviews of award expenditures and allocation methodologies to ensure alignment with relative benefit.

Grant Managers and Department/Local Level Managing Units (individuals responsible for account monitoring/management) assist PIs in the timely review and reconciliation of expenditures, including reconciliation of suspense/holding accounts, while offering valid cost basis options for an allocation methodology. Administrators should familiarize themselves with this guidance and be prepared to provide options to the PI if more than one allocation cost basis appears to fit the circumstance. Local managing units should establish the valid allocation methodologies and maintain adequate documentation in accordance with the University retention policy, with approvals where applicable, as well as support for individual allocations.

School/Tub-level officials provide guidance and are responsible for ensuring that local units follow any tub-defined policies and accompanying procedures. Schools may develop additional approval processes and perform routine follow-up, as they deem necessary.

Office for Sponsored Programs (OSP) is responsible for publishing this guidance and related materials, and providing additional guidance and clarification, when applicable. This guidance is updated through the Operations and Policy Committee (OPC).

Definitions

Allocation Methodology

The reasoned basis used to approximate the proportional benefit to benefiting activities when the relative benefit cannot be easily determined. Allocation methodologies are used in allocations to support the assignment of costs.

Cost Basis

The units that represent the approximation of relative benefit over which the costs are allocated. The cost basis is part of the allocation methodology used in the allocation.

Appendices

- [Appendix A: Allocation Methodology Examples](#)
- [Appendix B: Allocation Methodology Calculation – Personnel Effort Calculation](#)
- [Appendix C: Allocation Methodology Calculation – Headcount](#)

Related Policies and Guidance

- [Cost Transfer Policy](#)
- [Effort Reporting Policy](#)
- [Internal Billing Transactions](#)
- [PCard](#)
- [Record Retention \(General Records Schedule\)](#)
- [ROPPA \(Responsibilities of Purchasers, Preparers and Approvers Policy\)](#)
- [Sponsored Expenditures Guidelines](#)
- [Sponsored Financial Reporting and Closeout Policy](#)
- [Transaction Monitoring](#)

Resources

To demonstrate compliance with UG, this document provides various resources for department/local units to utilize for their expenditures. Administrators are encouraged to discuss with their school/tub official prior to placing an allocation expense onto a sponsored project if an allocation methodology does not utilize or is not covered by this guidance.

School Contact List

- FAS/SEAS: [Research Administration Services \(RAS\)](#)
- HKS: [Research Administration Office \(RAO\)](#)
- HMS/HSDM Research Finance: [Office of Research Administration \(ORA\)](#)
- HSPH: [Kay Sullivan](#), Associate Director, Research Operations
- HGSE: [Tiffany L. Cott](#), Director, Sponsored Projects
- Wyss: [Paula Cornelio](#), Director of Sponsored Projects

Revision History

January 2021: New